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January 28, 2005

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: **Ex Parte Communication, Developing Unified Intercarrier
Compensation Regime, CC Docket 01-92**

Dear Ms. Dortch:

On Thursday, January 27, 2005, Gary M. Epstein of Latham & Watkins LLP, counsel for the Intercarrier Compensation Forum ("ICF"), together with Alan Buzacott of MCI, Inc., Eric Einhorn of SBC Communications Inc., Jeff Lindsey of Sprint Corporation, Joel Lubin and Amy Alvarez of AT&T Corp., and Tina Pidgeon of General Communication, Inc. ("GCI"), met with Robert M. Pepper, Evan Kwerel, Bill Sharkey, and Don Stockdale of the Office of Strategic Planning and Policy Analysis.

At the meeting, we used the materials attached to this letter as the basis for a discussion of the ICF's Intercarrier Compensation and Universal Service Reform Plan, filed with the Commission on October 5, 2004.

Please direct any questions concerning this matter to me at (202) 637-2249.

Very truly yours,

/s/ Gary Epstein

Gary M. Epstein

Intercarrier Compensation Forum

Universal Service Reform under the ICF Intercarrier
Compensation and Universal Service Reform Plan

January 26, 2005

Key Features of the ICF Plan

- Uniform Network Interconnection
- Uniform Rate Structure
- Uniform Rate Level
- Universal Service

The ICF Plan Is In the Public Interest

- Uniform Default Network Interconnection Rules –
 - ◆ Are an essential part of a unified intercarrier compensation system
 - ◆ Reduce interconnection disputes
 - ◆ Provide certainty and a backdrop for negotiation
- Uniform Intercarrier Compensation Rate Structure and Level –
 - ◆ Eliminate artificial incentives and opportunities for regulatory arbitrage
 - ◆ Eliminate the need for the unsustainable local-toll distinction
 - ◆ Make it easier for consumers to receive the service packages they want at affordable rates
 - ◆ Lessen pressure for economic regulation of VOIP
 - ◆ Facilitate expanded toll competition and calling scope for local service, particularly in rural areas

The ICF Plan Is In the Public Interest (cont'd)

- Universal Service Reform –

- ◆ Ensures that universal service support is specific, predictable, and sufficient, as required by Section 254
- ◆ Promotes efficient competition by making the end user who chooses the service provider directly responsible for the cost of such services (instead of indirectly responsible, as happens today)
- ◆ Eliminates inefficient implicit cross-subsidies and allows the rate integration/averaging goal of Section 254(g) to be met
- ◆ Creates correct economic incentives for broadband deployment
- ◆ Places funding for universal service on firm footing for the future at a time when interstate, end user, telecommunications revenues are shrinking and becoming more difficult to ascertain
- ◆ Makes the universal service contribution base broader and lessens the resulting burden on individual consumers, while ensuring that all providers contribute equitably to universal service

The ICF Plan Is the Only Plan that Solves Today's Most Pressing Problems

- No other proposal represents a comprehensive and operational solution to today's intercarrier compensation and universal service reform problems
- No other proposal achieves true uniformity:
 - ◆ ARIC, CBICC, and EPG would maintain originating and terminating access charges:
 - Causing rates in rural areas to be higher than in urban areas
 - Leading to the end of toll rate averaging/integration
 - Forcing carriers, to determine applicable rates, to attempt to maintain an unsustainable geographic mapping of NPA-NXXs
 - Preserving opportunities for arbitrage
 - ◆ No other plan achieves uniformity in network interconnection, a necessary prerequisite to uniform intercarrier compensation
- No other plan creates a stable funding source for new universal service funding reform will require
- The rural plans' proposal to apply the access model to the IP networks of the future is bad policy and cannot be sustained

No Other Plan Is Sustainable as a Legal or Policy Matter

- ARIC –

- ◆ Asks the Commission to export today's broken legacy system of intercarrier compensation to tomorrow's IP-based networks
- ◆ Unlawfully delegates federal ratesetting responsibilities to the states and fails to require states to establish uniform rates

- EPG –

- ◆ Solely addresses rural interconnection issues
- ◆ Fails to explain how its needlessly complicated “port and link” proposal would work

- CBICC –

- ◆ Moves all intercarrier compensation to TELRIC rates without addressing uniformity, administrative, or jurisdictional issues
- ◆ Fails to resolve industry-wide cost recovery or universal service issues

Modified Rules: CRTC's

- Are not required to bear the cost of transporting traffic outside of their service territories, except to reach other CRTC's.
- May grow through acquisitions of exchanges.
- May charge for terminating transport for all minutes (including EAS) they carry from the meet point to the Edge.
- Are subject to special rules re settlement of CRTC-CMRS disputes.
- May seek relief if the rate restructuring causes declines in special access demand.
- Monthly residential SLC caps are limited to increases of \$0.50 each year, to \$9.00, less than the SLC caps for other ILECs.
- Are subject to the new uncapped Transitional Network Recovery Mechanism (TNRM) support mechanism.

Preserving Universal Service

Modifications to Existing Support Mechanisms

- Rural High Cost Loop Support

- ◆ Cap removed.
- ◆ National Average Unseparated Cost Per Working Loop unfrozen.
- ◆ Rule reducing support for carriers with over 200,000 lines eliminated.

- Safety Valve Support

- ◆ Support augmented in the partial year and first full year after an acquisition closes.
- ◆ Existing (5 percent) cap on aggregate safety valve support retained.
- ◆ New “Safety Valve II” support for switching and transport created.

- Option to Elect Non-Rural High Cost Mechanism

- ◆ Certain CTRCs under the Plan may elect to receive support from the non-rural high cost mechanism.

Summary of Key Events in the ICF Plan

Step	Year beginning July 1:	Network Interconnection	SLC Transition		Pricing Flexibility for Price Cap Carriers	Intercarrier Payments				Universal Service
			Large Carriers	CRTCs		Large Carriers		CRTCs		
						Access Charges	Non-Access	Access Charges	Non-Access	
1	2005	No Change	SLC caps rise in a 4-step transition subject to three constraints: (1) Neither the \$6.50 residential SLC cap nor the average residential SLC rate can increase by more than \$0.75/month in steps 1 and 2, or by more than \$1.00 in Steps 3 and 4. (2) No individual residential SLC rate can increase by more than \$0.95/month in Steps 1 and 2, or by more than \$1.20/month in Steps 3 and 4. (3) Other SLC caps (non-primary residential and MLB) increase only to the extent they would otherwise be below the residential SLC cap.	Between Step 1 and Step 5, residential SLC caps increase from \$6.50 to \$9.00 in \$0.50 annual increments.	Step 1 SLC pricing flexibility (subject to revenue limits, constraints to prevent shifting recovery from business to residential users, and safeguards to prevent any effect on USF).	Four equal step plan transitions all interstate and intrastate access charges to SLCs, new universal service support, and a single, uniform rate of \$0.000175 per terminating minute.	At step 1, non-access compensation rates unified at \$0.0003525 per minute. Between Step 1 and Step 4, a four-step plan transitions all non-access compensation to SLCs, new universal service support, and a single, uniform rate of \$0.000175 per terminating minute.	Four equal step plan transitions all interstate and intrastate access charges to SLCs, new universal service support, and a single, uniform rate of \$0.000175 per terminating minute.	\$0.0125 per minute default recip comp rate established for CRTC-CMRS traffic. Other non-access compensation rates unified at \$0.0003525 per minute. Four-step plan transitions all non-access compensation to SLCs, new universal service support, and a single, uniform rate of \$0.000175 per terminating minute.	<u>All at Step 1:</u> New support mechanisms (ICRM and TNRM) provide support for intercarrier compensation amounts otherwise not recoverable. Maintain rate-of-return principles for rate-of-return carriers. Cap removed from rural high cost loop support mechanism. Changes to Safety Valve Mechanism take effect. Certain rural price cap carriers gain option to elect support from non-rural mechanism. Telephone number and capacity-based unit contribution methodology replaces current interstate revenue-based system.
2	2006			In Steps 1-3, other SLC caps increase only to the extent that they would otherwise be below the residential SLC cap.						
3	2007	New "Edge" rules take effect. New rates for edge-to-edge interconnection transport, transiting, and optional CRTC terminating transport take effect.	At Step 4, the MLB SLC cap increase to \$10.00.	Additional Step 4 SLC pricing flexibility (subject to safeguards that prevent any effect on USF), including removing end user charges from price caps.	Uniform termination rate of \$0.000175 per terminating minute. (Terminating transport rates for CRTCs preserved).					
4	2008	All SLC caps uniform at \$10.00 (USF calculated accordingly); inflation indexing takes effect			No Change					
5	2009		(Optional) Residential SLC caps increase to \$9.50	Termination rate reduced by 50% to \$0.0000875/terminating minute. (Terminating transport rates for CRTCs preserved).						
6	2010	(Optional) Residential SLC cap increases to \$10.00		Termination rate reduced to zero. (Terminating transport rates for CRTCs preserved).						
7	2011		Termination rate remains at zero. (Terminating transport rates for CRTCs preserved).							
8	2012	No Change								

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December 14, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: **Ex Parte Communication, Developing Unified Intercarrier
Compensation Regime, CC Docket 01-92**

Dear Ms. Dortch:

The undersigned counsel for the Intercarrier Compensation Forum ("ICF") delivered the attached information to Jim Lande of the Wireline Competition Bureau today, at his request. This information models the effect on universal service contribution rates of the ICF's Intercarrier Compensation and Universal Service Reform Plan, including its proposed contribution reforms.

On December 6, 2004, the ICF filed this information for annual Steps 1 and 5 of the ICF Plan. This attachment supplements that filing with similar information for Steps 2, 3, and 4 of the ICF Plan.

Please direct any questions concerning this matter to me at (202) 637-2225.

Very truly yours,

/s/ Richard Cameron

Richard R. Cameron

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 1			
\$ Millions	Base Period Access Revenue	Remaining Inter-carrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	\$ 7,194	\$ 5,560	\$ 1,634	\$ 1,228	\$ 406
CRTC	\$ 2,384	\$ 1,932	\$ 453	\$ 117	\$ 336
TOTAL	\$ 9,578	\$ 7,492	\$ 2,087	\$ 1,345	\$ 742
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					\$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					\$ 46
Net Settlements -- Not Included In The Base					\$ 38
Grand Total	\$ 9,578	\$ 7,492	\$ 2,087	\$ 1,345	\$ 1,126

*Remaining Inter-carrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 2			
\$ Millions	Base Period Access Revenue	Remaining Intercarrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	\$ 7,194	\$ 3,926	\$ 3,268	\$ 2,510	\$ 758
CRTC	\$ 2,384	\$ 1,479	\$ 906	\$ 231	\$ 675
TOTAL	\$ 9,578	\$ 5,405	\$ 4,173	\$ 2,741	\$ 1,432
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					\$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					\$ 92
Net Settlements -- Not Included In The Base					\$ 75
Grand Total	\$ 9,578	\$ 5,405	\$ 4,173	\$ 2,741	\$ 1,899

*Remaining Intercarrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 3			
\$ Millions	Base Period Access Revenue	Remaining Inter-carrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	\$ 7,194	\$ 2,253	\$ 4,941	\$ 4,022	\$ 919
CRTC	\$ 2,384	\$ 837	\$ 1,547	\$ 345	\$ 1,203
TOTAL	\$ 9,578	\$ 3,090	\$ 6,488	\$ 4,366	\$ 2,122
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					\$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					\$ 148
Net Settlements -- Not Included In The Base					\$ 113
Grand Total	\$ 9,578	\$ 3,090	\$ 6,488	\$ 4,366	\$ 2,683

*Remaining Inter-carrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 4			
\$ Millions	Base Period Access Revenue	Remaining Intercarrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	\$ 7,194	\$ 659	\$ 6,536	\$ 5,491	\$ 1,044
CRTC	\$ 2,384	\$ 573	\$ 1,811	\$ 472	\$ 1,339
TOTAL	\$ 9,578	\$ 1,232	\$ 8,347	\$ 5,963	\$ 2,383
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					\$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					\$ 200
Net Settlements -- Not Included In The Base					\$ 150
Grand Total	\$ 9,578	\$ 1,232	\$ 8,347	\$ 5,963	\$ 3,033

*Remaining Intercarrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 5			
\$ Millions	Base Period Access Revenue	Remaining Inter-carrier Payments *	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	\$ 7,194	\$ 659	\$ 6,536	\$ 5,778	\$ 757
CRTC	\$ 2,384	\$ 573	\$ 1,811	\$ 566	\$ 1,246
TOTAL	\$ 9,578	\$ 1,232	\$ 8,347	\$ 6,344	\$ 2,003
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					\$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					\$ 216
Net Settlements -- Not Included In The Base					\$ 150
Grand Total	\$ 9,578	\$ 1,232	\$ 8,347	\$ 6,344	\$ 2,669

*Remaining Inter-carrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of USF per unit						
	2004	Step 1	Step 2	Step 3	Step 4	Step 5
Assessment Per Unit Per Month	\$ 1.05	\$ 1.23	\$ 1.31	\$ 1.41	\$ 1.40	\$ 1.34
Revenue (\$ Thousands)						
Baseline --USF	\$ 6,521,269	\$ 6,521,269	\$ 6,521,269	\$ 6,521,269	\$ 6,521,269	\$ 6,521,269
Overlay from the lifting of rural cap	\$ -	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Overlay from Lifeline due to increase in SLC	\$ -	\$ 46,484	\$ 91,950	\$ 148,175	\$ 200,164	\$ 215,893
Net Settlements Not in the base		\$ 37,500	\$ 75,000	\$ 112,500	\$ 150,000	\$ 150,000
ICF Increase to the USF	\$ -	\$ 741,647	\$ 1,432,358	\$ 2,122,005	\$ 2,383,168	\$ 2,002,616
Total USF	\$ 6,521,269	\$ 7,646,900	\$ 8,420,577	\$ 9,203,949	\$ 9,554,601	\$ 9,189,778
	Units					
Category	Dec-03 *	Step 1	Step 2	Step 3	Step 4	Step 5
ILEC **	298,903,000	298,903,000	299,236,333	299,403,000	299,903,000	299,903,000
ILEC Lifeline Subscribers	5,907,789	5,907,789	5,907,789	5,907,789	5,907,789	5,907,789
CLEC	31,699,000	31,699,000	31,699,000	31,699,000	31,699,000	31,699,000
Cellular/PCS ***	107,438,041	107,438,041	123,972,721	132,240,062	157,042,082	157,042,082
Pager Lines	11,208,000	11,208,000	11,208,000	11,208,000	11,208,000	11,208,000
Toll Free Numbers	22,050,182	22,050,182	22,050,182	22,050,182	22,050,182	22,050,182
Special access +	20,814,774	20,814,774	20,814,774	20,814,774	20,814,774	20,814,774
Total Broadband	27,260,834	27,260,834	27,260,834	27,260,834	27,260,834	27,260,834
Total units available (w/o Lifeline)	519,373,831	519,373,831	536,241,845	544,675,851	569,977,872	569,977,872

* For this analysis, Step 1 Units are used for Dec-03.

** Rural ILEC primary line is a full unit. Additional lines are phased in 1/2, 2/3, 3/4, 1.00 over four steps.

*** Primary subscriber is a full unit. Additional subscribers are phased in 1/2, 2/3, 3/4, 1.00 over four steps.

+ Special Access units are weighted (weights are 1, 5, 40, 100 for Tier 1,2,3 and 4, respectively)